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LAND TENURE AND PUBLIC POLICY—DISCUSSION

CHARLES L. STEWART.—Failure to appreciate the importance of the “agricultural ladder,” as described by Mr. Spillman, and the rôle of farm tenancy, as elucidated by Dr. Ely, may lead administrative officials and the public into grievous errors.

The assumption dominates the thinking of many reformers, among whom Mr. Kent’s paper would classify him, that operators should own the land they farm and that owners should actively cultivate their land. Most reformers, however, would hesitate to apply this doctrine so rigidly to the tenure of business and residential properties in cities or even to those capital goods of agriculture—such as bulls, boars, and simple types of farm machinery—which, requiring no special skill on the part of the user, are often loaned or hired for use away from the owner’s supervision.

Fundamentally the extent to which the hiring of capital items, of land or of anything else, is justified depends mainly on their “fool-proof” qualities. Farm operators who would like to become lessees of farms having expensive and complex machinery in the form of private irrigation plants or farms whose equipment is in large herds of live stock, in orchards and vines, or in “made” land such as cranberry bogs, are likely to be disappointed in their search. Owners of farms so equipped and constituted seldom permit lessees to run their places for fear of running them down or of clogging the current of yield and profit through carelessness, inexperience, or indisposition. When any large part of the value of a farm property is imputable to equipment, herds, machinery, and improvements, the place is seldom hired without damage to the lessor, the lessee, or the public.

On the other hand the typical farm can show only a relatively small proportion of its value in the form of capital items when all operator’s items are eliminated. Now land *per se* stands in a very different status from plows, herds, and the other items of working equipment. On this distinction rests the justification of tenancy of land and of the customary scarcity of tenancy of capital goods of operators.

Reasons for insisting upon the old distinction in this connection are threefold: In the first place, the operator of land *per se* deals with a property to whose deterioration it will ordinarily be beyond his power or interest to contribute a large degree in any brief period. In the second place, an investment in land puts resources into a relatively *resting* form while an investment in operator’s capital goods puts re-

sources into *working* form. Working capital differs from “resting” capital in at least three respects: (a) capital goods wear or pass out sooner than land; (b) capital goods have perhaps less versatility and continuity of usefulness as seasons and policies change; and (c) capital goods are usually employed with a greater admixture of user’s manual and entrepreneurial service per unit of value. In the third place, the owner’s selective function operates differently as between capital goods and land. Demand for specific items of capital goods controls their supply on the market. Such “birth control” is inoperative with respect to land, much of which has to be owned for centuries before a nation’s controllers of development capital and labor should put it into much service. The landowner’s duty as a selector, contrasted with that of the owner of operator’s capital items, is to select properties with a good prospect of usefulness in a possibly distant future. Choices with respect to operator’s capital items normally carry a larger possibility of loss from a small degree of error than choices as to the proper discounting of future land values. A higher average rate of return accruing to owners of working-capital items than to owners of land, farmers wishing to sell their productive years so as to get the largest income and the most valuable accumulation, will keep their resources in those forms in which they can make them compound at the higher rates. So long as there are farmers passing beyond their most productive years and others whose time is considered more productive outside of farm operation, and so long as these supply agriculture with enough capital for landownership at the customary low rates of return on “resting” capital, just so long should skilful operators prefer to let these more highly qualified groups supply him with the use of rented land.

The difference in economic aspect between landownership and farm operation is admirably indicated by Dr. Ely and Mr. Spillman. To summarize their points of view we may resort to parallels.

Landowner’s functions

1. Provide primary investment capital, select specific properties, meet carrying charges, and take risks on getting in time an adequate return from rent and increment—a large amount of capital being rewarded over a long period at a low rate.

Farm operator’s functions

1. Provide working capital (perhaps coöperatively with landowner), select specific items of equipment, meet carrying charges, and take risks on getting in time an adequate return by way of increase of net income above wages—a variable amount of capital being rewarded over a short period at a high rate.

2. Provide developmental capital, determine the specific forms and the time schedule of its application, meet carrying charges, and take risks on getting in time an adequate return in enlarged rents and increments—a varying amount of capital being rewarded over a fairly short period at a good rate.

3. Select operators, help to supply their deficiencies in capital and in operating entrepreneurship, and take risks on getting in time a return service and an output justifying his outlay of time and funds.

2. Provide developmental labor, coöperate with landowner in determining and executing the specifications of development projects, and take risks on getting an adequate return by way of compensation for “unexhausted improvements” and by way of enlarged yields during the prospective period of association with the properties improved—a varying amount of labor being rewarded over a fairly short period at a good rate.

3. Select laborers, supply them with program and stimulus, and take risks on getting a return service and an output justifying his outlay of time and funds.

In general agricultural landowners must economize “resting” and semi-working capital. They should refuse to put capital into land purchase or developments unless it is rewarded as well as it would be if put into non-agricultural properties and enterprises demanding skilful attention and risk-assumption in the same degree. Farm operators should economize semi-working capital but more particularly working capital. They should refuse to put capital (or labor) into any particular kind or scale of farm operation unless it is rewarded as well as it would be if put into operations outside of agriculture demanding skilful attention and risk-assumption in the same degree. While the landowner calculates mainly on the basis of acre-years, the farm operator calculates on the basis of man-years.

Nor is the functional distinction between farm ownership and operation a matter of academics merely. The rate of return on working capital will ordinarily average five or six times as high as the rate on “resting” capital, while the rate on semi-working or development capital will ordinarily fall about midway between. Many a tenant whose capital in full working form yields 25 per cent buys land instead of keeping on more exclusively with high-producing forms and finds that he started to put his resources to rest at too early a date. Being “land-poor” is an all too common status. Low-rate capital should be furnished by farmers only when past their prime.

The operator, furthermore, should be free to change his location, modify his scale of farming, and shift his emphasis from product to product. He makes these variations according to changing conditions

in his information, maturity, family labor supply, capital resources, and according as margins on various products and policies vary under changes in prices and costs. Operators profit most, therefore, where boundary lines of ownerships do not restrict the shifting of the boundaries of operated areas. The presence of a high percentage of land leased by part owners is a striking evidence of the need for elasticity in the boundaries of operated areas during dynamic times.

It is usually better for an operator to refuse to own much land until able to start retiring his capital from more active forms to that form which affords the luxury of home ownership and of an income less dependent on strenuous entrepreneurship. Such an income is made certain at the expense of becoming modest. Where ownership of farm and home is needed to afford economic stimulus to a farmer and his family it may, of course, be wiser to retire part of the resources in order that greater manual and entrepreneurial support may be given to the rest of the resources. In many of these cases it would be better still for family and social economy to spread a recognition of the fact that enlargement of resources in capital items may signify greater wealth and larger income than landownership. The conversion of resources to the "resting" form is justified on precisely the same basis in the case of farm operators as it is in the case of other active business people, and by that we mean that too early retiring of one's capital is as improper from the social viewpoint as too early retiring of one's entrepreneurial or manual service.

In the light of the papers presented by Dr. Ely and Mr. Spillman we must criticize adversely any attempt by federal or state authorities to introduce a land policy under which standardization and system go too far. A planned rural development must avoid at least the following pitfalls:

1. The areas obtainable for operation by farmers must not vary over too small a range in any community and there must be no avoidable obstacles to the shifting of lines between operated areas by easy arrangements. There must be no checkerboard conception as to "ideal" tracts for operation. If basic tracts are standardized interstices must be left between them for fractional tracts, subject to annexation to basic tracts as operators need to expand. These fractional tracts should not be made too large and should not fail to be numerous. If such fractional tracts are not provided by the government plan, no restriction should be put in the way of breaking standard units up as need arises.

2. Ownership of the land must not be made a condition of opera-

tion. Otherwise the length of the step between the apprentice status of farm hand and the status of more or less retired resource assumed by landowners will become so wide that the economic stimulus of the agricultural ladder will be lost. Unless land leasing is permitted and unless administrative officials are as efficient as private landlords in adjusting lease relations, it will be hard to justify the government project.

3. A government land-settlement scheme should avoid any effort to standardize the careers of farmers either by fixing rigid time schedules of achievement or by restricting the goal of income or of accumulation. The advantages of economic freedom in moving to preferred opportunities, taking risks on preferred policies, etc., must not be lost.

4. Regardless of the extent to which government land-settlement projects are undertaken, more decided steps should be taken throughout the country to help landlords and tenants to understand the economic functions incumbent upon them and to perfect their relations. Perhaps our county farm bureaus can do this by conferences on landlord-tenant relations, by helping with the construction and the typing of leases, and by promoting arbitration out of court in cases of dispute where the adjustment involves an agricultural result.

W. J. SPILLMAN.—Professor Ely refers to the fact that young men starting out with little capital frequently find it financially desirable to be tenants rather than owners because of the larger business they can conduct on their limited capital. I wish merely to confirm this statement by referring to data collected in our farm management surveys while I was connected with the Office of Farm Management. In all of our more recent surveys we made groupings of men according to total capital owned. All those with capital of less than \$1000 constituted one group, those with from \$1000 to \$2000 another group, and so on. Each of these groups was divided into subgroups based on tenure. In nearly all cases the lowest groups, that is, those with the lowest capital, contained only tenants. As the amount of capital owned increased the proportion of owners increased, and, generally speaking, when the average farm income of a group of owners had risen to the point that permitted a satisfactory standard of living, practically all of the men passed from the tenant into the owner class. This in spite of the fact that a tenant with a given amount of owned capital, in practically all cases where considerable numbers were averaged, had a farm income approximately three times as great as owners with the same amount of capital.

These figures indicate that the tenant, by passing from tenancy to ownership, sacrifices about two thirds of his net cash income. The very fact that in all cases practically the entire number of tenants became owners as soon as practicable, sacrificing two thirds of their income in order to do so, indicates that there are compelling reasons for his doing so. I am not sure that I know all these reasons. One of them, however, is the desire to own a home; another is the desire for economic independence which the owner enjoys in a much greater degree than the tenant. I think too that in many cases the prospective rise in future values of farm land make the investment attractive.

I think it is very fortunate that tenants do strongly desire to become owners and do so at the first opportunity, for a farming community made up entirely of tenants seldom maintains itself at as high a level of rural welfare as is the case with a similar community made up of farm owners.

B. H. HIBBARD.—It may be well to call attention to a few points in the paper on single tax in spite of the well-known and well-worn character of single tax argument. The agility with which the transition is made from one type of property in land to an altogether different type is always amazing. The reader of the above paper is no exception. In one paragraph he discusses ordinary farm land which is held in small tracts, and farmed under highly competitive conditions. If the ownership of such land is a monopoly then surely the word must be defined anew. In the next paragraph he discusses, in the same tone, such things as coal mines and forests. These have long been recognized as monopolies, and at least something has been done toward their control. All single taxers are discretely vague on the vital question of farm land held out of use.

The single taxer is distressed because land which at one time was acquired at little expense rises to high values. He wants the government to squeeze the value out. It may be suggested that one purpose of accumulating property is security in old age, the desire to leave property to one's children, and the like. Should all land be nationalized, it would be necessary for a farmer, in order to accumulate anything beyond chattels, to invest his savings in something outside the farm, thus dividing his interest. At the same time, should the state collect the full economic rent, it does not appear that land would be any more accessible than at present, since any tenant is able now to get land on payment of its competitive rental value.

The case of a bridge from which driftwood may be caught is cited

to illustrate the absurdity of the payment of rent to a private landowner. If the bridge is replaceable at will, and there is plenty of wood to be had, the illustration fails, since it is plain that the builder of the bridge is paid for a real service. If the bridge is not replaceable, it fails, because it is not analogous to farm land. It is a monopoly and should be dealt with as such.

Another habit of the single taxer which is difficult of comprehension is his assumption that almost no property other than land yields a surplus. Why not look into these other sources of unearned increment, instead of begging the question by explaining all such advantages as dependent on landownership?

Some of us are unable to comprehend the views of the single taxer, but he has the privilege, which he is frequently ready to exercise, of telling us, as Browning told certain of his readers, that he could not furnish the brains for writing the poems and at the same time for understanding them.